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Memorandum of Conversation
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DECLASS. AUTHORITY *April 8, 1993*
RELEASE DATED
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SUBJECTS: 1. Chinese Nationalist Program For Economic Self-Support in Four Years.
2. Combined US-Chinese Military Staff.

PARTICIPANTS: Walter S. Robertson, Assistant Secretary
General Yu Ta-wei, Special Adviser, Chinese Ambassador
Walter P. McConaughy, Director, Chinese Affairs

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Department of Defense
Taipei
DRF

Bureau of
FAR EASTERN AFFAIRS
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ASSISTANT SECRETARY
Department of State

General Yu Ta-wei called to pay his respects to Mr. Robertson, prior to departing for Taipei on consultation. General Yu said he hoped to return to his post here early in June. During his absence General Han will be in charge of procurement activities and liaison with MSA and the Department of Defense, for the Chinese Embassy in Washington.

After congratulating Mr. Robertson on his assumption of office a few hours earlier, and recalling the 1946 period when Mr. Robertson and General Yu were associated in conducting the truce negotiations instituted by General Marshall, General Yu turned to two matters of substance.

1. Economic Self-Support Program.

General Yu said that the Chinese Government is resolved to press toward the goal of substantial economic self-sufficiency on Formosa by 1957. He said that the formidable difficulties in the path were evident, but with the help of the U. S. it was hoped to overcome the obstacles. He said he had expressed the same hope to Mr. Stassen last week, and Mr. Stassen had been sympathetic. General Yu emphasized that the program could not be accomplished without US assistance during the 4-year period on the scale set forth in the plan, which had been drawn up by the Chinese Government in consultation with MSA representatives in Taipei. The level of U. S. aid during this period admittedly would have to be above the present level, which he said was around \$100 million per annum.

General Yu said he knew that no formal commitments covering such a long period could be made by the U. S. Government, but he felt that the Chinese Government had a case which merited favorable consideration. He saw no hope of the Chinese Government

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ever becoming economically independent of the U. S. without a program of this sort. Therefore, he thought it was in the U. S. interest to support a program of this sort as a good investment which would substantially relieve it within a few years of the burden of subsidizing the Formosan civilian economy. The military support burden was very heavy - 30% of the MSA budget being devoted to "common-use" items primarily for the military - and he doubted if the Formosan economy could ever support an abnormally large military establishment.

General Yu said that the fertilizer production program was the heart of the 4-year plan. In order to maintain the necessary high level of sugar and rice production on Formosa, 600,000 tons of chemical fertilizer per annum are required. At present Formosa is producing only 150,000 tons. The financing of the importation of the balance is a very heavy drain on the Formosan economy which has to be made good by the U. S. The 4-year plan envisages a fertilizer production capacity of 450,000 tons by 1957. In order to achieve this goal a large increase in hydro-electric power generating capacity is required. Assuming a successful achievement of the fertilizer production goal, there will still be a fertilizer deficit of 150,000 tons per annum which must be made good by importation. However, this amount of fertilizer imports can be paid for by sugar exports. Since the Chinese do not consume much sugar, there should always be a substantial exportable surplus of sugar on the Island. But the Formosan population consumes fully 90% of rice production, and no large quantity of rice will be available for export.

2. Combined Military Staff.

General Yu said that he was raising the subject of the need for a combined US-Chinese Military Staff only in a preliminary, informal way. He understood that it would be broached later in a more formal manner. However, he knew that the Generalissimo was convinced of the necessity of a combined military staff, joint US-Chinese military planning, and operations in the event of necessity. He said that he believed the Generalissimo had in mind an organization somewhat along the lines of the combined staff which functioned in Chungking in the later stages of World War II. Gen. Yu said that the Generalissimo had discussed the matter in a tentative way in recent months with Admiral Radford and with General Olmstead. He thought that the need for some sort of coordinated approach to our common military problem was apparent.

(NOTE: Gen. Yu did not give any indication that he knew anything about the recent JCS Directive to CINCPAC regarding coordinated defensive and offensive planning with the Chinese Nationalists and authorizing arrangements for the establishment of certain airbase and anchorage facilities. Mr. Robertson and Mr. McConaughy made no comment whatever on the feeler put out by General Yu.)

CA:VPMcConaughy/ikb

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